

Highlights from the GAO Report on the Royalty-in-Kind Program:

GAO Outlines Industry's Strong Support for RIK

- “The value of the oil and gas, in particular, is often a source of dispute. For example, during MMS’s recently completed 4-1/2 year process of promulgating new regulations for valuing oil, the oil industry strongly opposed these regulations primarily because they would increase the industry’s royalty payments and increase their administrative burden. In commenting on the regulations, industry officials suggested that instead of accepting cash royalty payments, MMS should accept a percentage of the actual oil and gas produced and sell the percentage itself – known as ‘taking royalties in kind.’” [GAO-03-296 Mineral Revenues: A More Systematic Evaluation of the Royalty-in-Kind Pilots is Needed, p. 1]

In One Year Alone, MMS Collected \$7.5 Billion in Royalties in 2001

- In fiscal year 2001, oil and gas royalties to MMS totaled about \$7.5 billion.” [GAO, pg. 1]

Over the Five Year Period, 32% of Oil Royalties Were In Kind

- “From January 1995 through September 2001, the Minerals Management Service took 178 million barrels of oil and 213 billion cubic feet of gas in kind, or about 32 percent of the federal government’s royalty share of all oil and 3 percent of all gas produced on federal lands...” [GAO, pg. 2]

No “Clear Objectives” for RIK Program

- “To date, MMS has not developed clear strategic objectives linked to statutory requirements or collected the necessary information to effectively monitor and evaluate the Royalty-in-Kind Program. Without clear objectives linked to statutory requirements and the collection of necessary information, MMS cannot systematically evaluate to what extent Royalty-in-Kind should continue.” [GAO, p. 3]

MMS Has “Taken Increasing Amounts of Royalties in Kind Since 1995”

- According to the GAO, the estimated value of the oil and gas taken in kind grew from 462 million dollars in calendar year 1995 to 1.343 billion dollars in calendar year 2000, and \$1.121 billion dollars in 2001. [Figures provided by GAO (see supplemental highlights chart). Additional information available on pgs. 5, 7 (Figure 2), 11 (Figure 4) of the GAO report]

Royalty-in-Kind is Scheduled to Go from Pilot to Permanence – But MMS Cannot Answer “Why?”

- “...MMS has yet to develop several key management control activities and does not plan to develop them until 2004, when it will consider the RIK Program to have changed from a pilot status to a fully operational status. Specifically, MMS has not clearly defined its strategic objectives, linked performance measures to these objectives, and collected the necessary information to monitor and evaluate the RIK Program.” [GAO, p. 12]

MMS is “Unable to Determine” if RIK is Better for Taxpayers than Royalty-in-Value

- “Without objectives to guide agency staff in the quantitative evaluation of the revenue impacts of RIK sales, MMS will be unable to determine whether RIK (Royalty-in-Kind) sales generate more or less revenue than traditional cash royalty payments; whether MMS obtains fair market value; and hence, whether it should convert the RIK pilots to an operational status.” [GAO, p. 15]